STMICROELECTRONICS NV
Form 6-K
November 22, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 or 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated November 22, 2002

Incorporated by reference in
STMicroelectronics N.V. s
Registration Statements on Form S-8,
as initially filed with the Commission on October 23, 2000
(File No. 333-12732);
on July 9, 1997 (File No. 333-7226);
and on February 4, 1997 (File No. 333-6390)

STMicroelectronics N.V.

(Name of Registrant)

39, Chemin du Champ-des-Filles
1228 Plan-les-Ouates, Geneva, Switzerland
(Address of Principal Executive Offices)

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

Enclosures: STMicroelectronics N.V. s Third Quarter 2002 Operating and Financial Review and Prospects

STMicroelectronics N.V.
CONSOLIDATED STATEMENT OF INCOME (Unaudited)
(In millions of U.S. dollars, except per share data)

	Three Months Ended		Nine Months Ended	
	September 28, 2002[1]	September 29, 2001	September 28, 2002[1]	September 29, 2001
Net sales	$ 1,632.9	$ 1,384.5	$ 4,499.0	$ 4,865.5
Other revenues	12.3	16.2	32.5	43.5
Net revenues	**1,645.2**	**1,400.7**	**4,531.5**	**4,909.0**
Cost of sales	(1,036.1)	(938.6)	(2,894.6)	(3,058.6)
Gross profit	**609.1**	**462.1**	**1,636.9**	**1,850.4**
Selling, general and administrative	(162.7)	(144.2)	(464.1)	(501.1)
Research and development [2]	(258.0)	(229.2)	(739.9)	(757.0)
Other income and expenses [2]	8.0	(17.2)	(11.4)	10.9
Impairment, restructuring and other related closure costs	(11.6)	(23.3)	(29.6)	(334.6)
Total operating expenses.	(424.3)	(413.9)	(1,245.0)	(1,581.8)
Operating income	**184.8**	**48.2**	**391.9**	**268.6**
Net interest expense	(20.3)	(4.8)	(51.5)	(1.3)
Equity in loss of joint ventures	(3.8)	(1.2)	(11.0)	(1.2)
Income before income taxes and minority interests	**160.7**	**42.2**	**329.4**	**266.1**
Income tax expense	(29.0)	(6.2)	(57.9)	(51.8)
Income before minority interests	**131.7**	**36.0**	**271.5**	**214.3**
Minority interests	(0.5)	(0.2)	(2.7)	(2.2)
Net income	**$ 131.2**	**$ 35.8**	**$ 268.8**	**$ 212.1**
Earnings per share (basic)	**$ 0.15**	**$ 0.04**	**$ 0.30**	**$ 0.24**
Earnings per share (diluted)	**$ 0.15**	**$ 0.04**	**$ 0.30**	**$ 0.23**
Number of weighted average shares used in calculating diluted earnings per share (in millions)	**890.3**	**905.1**	**893.9**	**903.3**

[1] Results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

[2] Other income and expenses include primarily funds received from government agencies in connection with our research and development programs, the cost of new plant start-ups, as well as foreign currency gains and losses, the gains realized on certain sales of marketable securities, the costs of certain activities relating to intellectual property and miscellaneous revenues and expenses. In 2001, other income and expenses included the amortization of goodwill; from January 1, 2002, with the implementation of FAS 142, goodwill is no longer amortized. Our reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs.

STMicroelectronics N.V.
CONSOLIDATED BALANCE SHEET
(In millions of U.S. dollars)

	As at September 28, 2002 (unaudited)	As at December 31, 2001 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,066.6	$ 2,438.8
Marketable securities	1,202.2	5.4
Trade accounts receivable	1,016.3	902.4
Inventories	887.3	742.5
Other receivables and assets	543.8	468.5
Total current assets	**4,716.2**	**4,557.6**
Goodwill, net	170.8	63.0
Other intangible assets, net	313.0	149.6
Property, plant and equipment, net	5,971.8	5,888.2
Investments and other non-current assets	110.1	139.1
	6,565.7	**6,239.9**
Total assets	**$ 11,281.9**	**$ 10,797.5**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Bank overdrafts	$ 15.3	$ 32.8
Current portion of long-term debt	125.4	96.5
Trade accounts payable	823.1	936.1
Other payables and accrued liabilities	481.7	409.5
Accrued and deferred income tax	172.9	212.4
Total current liabilities	**1,618.4**	**1,687.3**
Long-term debt	2,797.3	2,771.5
Reserves for pension and termination indemnities	134.4	115.8
Other non-current liabilities	121.4	112.2
	3,053.1	**2,999.5**
Total liabilities	**4,671.5**	**4,686.8**
Commitments and contingencies		
Minority interests	**41.0**	**36.0**
Common stock	1,143.1	1,142.4
Capital surplus	1,847.2	1,836.0
Accumulated result	4,431.7	4,198.6
Accumulated other comprehensive loss	(504.3)	(869.0)
Treasury stock	(348,3)	(233.3)
Shareholders equity	**6,569.4**	**6,074.7**

Total liabilities and shareholders' equity	**$ 11,281.9**	**$ 10,797.5**

STMicroelectronics N.V.
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
(In millions of U.S. dollars)

	Nine Months Ended	
	September 28, 2002	**September 29, 2001**
Cash flows from operating activities:		
Net income	$ 268.8	$ 212.1
Add (deduct) non-cash items:		
Depreciation and amortization	1,013.6	972.1
Amortization of discount on convertible debt	65.2	58.9
Impairment and restructuring charges	7.0	334.6
Gain on the sale of marketable securities	(1.4)	(44.8)
Other non-cash items	34.2	(8.2)
Minority interest in net income of subsidiaries	2.7	2.2
Deferred taxes	3.9	(33.9)
Equity in loss of joint ventures	11.0	1.2
Change in assets and liabilities:		
Trade accounts receivable	(74.3)	422.1
Inventories	(64.9)	(8.4)
Trade accounts payable	(44.7)	(379.6)
Other assets and liabilities, net	(67.1)	(11.4)
Net cash provided by operating activities	**1,154.0**	**1,516.9**
Cash flows from investing activities:		
Payment for purchases of tangible assets	(770.7)	(1,563.1)
Purchase of marketable securities	(1,200.0)	(1,100.5)
Proceeds from the sale of marketable securities	1.4	63.7
Investment in intangible and financial assets	(34.3)	(109.3)
Payment for purchase of acquisition net of cash received	(308.8)	
Net cash used in investing activities	**(2,312.4)**	**(2,709.2)**
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	68.1	356.3
Repayment of long-term debt	(134.7)	(206.5)
Decrease in short-term facilities	(17.1)	(19.1)
Capital increase	11.9	26.3
Payments to acquire treasury stock	(115.0)	
Dividends paid	(35.6)	(35.8)
Other financing activities	(0.7)	
Net cash provided (used) by financing activities	**(223.1)**	**121.2**
Effect of changes in exchange rates	9.3	(14.6)
Net cash decrease	**(1,372.2)**	**(1,085.7)**
Cash and cash equivalents at beginning of period	$ 2,438.8	$ 2,295.7
Cash and cash equivalents at end of period	$ 1,066.6	$ 1,210.0

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STMicroelectronics N.V.

Notes to Interim Consolidated Financial Statements (unaudited)

Description of Business

STMicroelectronics N.V. (the Company) is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits (ICs) and discrete devices used in a wide variety of microelectronic applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. According to Dataquest-Gartner Group, the Company was the third largest semiconductor company worldwide in 2001 based on sales.

The Company offers a diversified product portfolio and develops products for a wide range of market applications to reduce its dependence on any single product, application or end market. Within its diversified portfolio, the Company has focused on developing products that leverage its technological strengths in creating customized, system-level solutions with high-growth digital and mixed-signal content.

The Company s products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods. The Company uses all of the prevalent function-oriented process technologies, including complementary metal oxide silicon (CMOS), bipolar and nonvolatile memory technologies. In addition, by combining basic processes, the Company has developed advanced systems-oriented technologies that enable it to produce differentiated and application-specific products, including BiCMOS technologies (bipolar and CMOS) for mixed-signal applications, BCD technologies (bipolar, CMOS and diffused metal oxide silicon (DMOS)) for intelligent power applications and embedded memory technologies. This broad technology portfolio, a cornerstone of its strategy for many years, enables the Company to meet the increasing demand for system-on-a-chip solutions. Complementing this depth and diversity of process and design technology is its broad intellectual property portfolio, which the Company uses to enter into important patent cross-licensing agreements with other major semiconductor companies.

Fiscal Year

The Company s fiscal year ends on December 31. Interim periods are established for accounting purposes on a 13-week basis. In 2002, the Company s first quarter ended on March 30, its second quarter on June 29, its third quarter on September 28 and its fourth quarter will end on December 31.

Basis of Presentation

The accompanying interim consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), consistent in all material respects with those applied for the year ended December 31, 2001. The interim financial information is unaudited, but reflects all normal adjustments which are, in the opinion of management, necessary to provide a fair statement of results for the interim period presented. The results of operations for the interim period are not necessarily indicative of the results to be expected for the entire year.

Certain prior year amounts have been reclassified to conform to the current year presentation. The interim financial statements should be read in conjunction with the financial statements in the Company s Annual Report on Form 20-F for the year ended December 31, 2001.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, *Business Combinations* (FAS 141), which is applicable for all business combinations initiated after June 30, 2001. This statement eliminates the use of the pooling-of-interests method and provides specific criteria for the recognition of intangible assets apart from goodwill. In the second half of 2001, the Company did not enter into any combination that would require the application of FAS 141. In the first quarter of 2002, the Company completed an asset sale and purchase agreement with Alcatel Business Systems to acquire certain assets dedicated to custom ASICs activities in the mobile phone market; the agreement also included the transfer from Alcatel Business Systems to the Company of a dedicated development team. The purchase price was approximately $1 million and the value of the workforce transferred was recorded as goodwill by the Company. On June 26, 2002 the Company completed the acquisition of Alcatel Microelectronics, a company of the Alcatel group, which manufactures and markets semiconductor integrated circuits. Concurrently, the Company sold to AMI Semiconductors, Inc. the just acquired mixed signal business activities of Alcatel Microelectronics and also its fabrication facility. The consideration for the purchase of Alcatel Microelectronics net of the proceeds from the resale to AMI was $308.8 million that has been fully paid as of September 28, 2002. The purchase price allocation is based on a third party independent appraisal and makes reference to the future business assumptions made by management, based on management s best knowledge of the acquired company and the industry. Such assumptions might be revisited as management acquires further knowledge of the acquired company or industry conditions change. The purchase price allocation may therefore be changed slightly in the next nine months. The Company recorded as intangible assets $110.5 million for core technologies, $57.7 million as an intangible asset for the supply contract signed with Alcatel group and $104.0 million as goodwill. In addition, the Company consolidated the fair value of assets and liabilities of entities acquired from Alcatel Microelectronics. As a result of this purchase price allocation, the Company also recorded a charge of $7.6 million in the second quarter of 2002 for in-process research and development.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangibles Assets* (FAS 142), which is effective for fiscal years beginning after December 15, 2001. FAS 142 primarily addresses the accounting that must be applied to goodwill and intangible assets subsequent to their initial recognition. In particular the statement requires that goodwill and indefinite lived intangible assets no longer be amortized but be subject to annual impairment tests to determine the appropriate carrying value. FAS 142 also requires the reclassification of any intangible assets which do not meet the FAS 141 criteria for recognition separately from goodwill. The Company adopted the standards required by this statement in the first quarter of 2002. In connection with the adoption of FAS 142, the Company reclassified $2.8 million of its intangible assets to goodwill, which had a total carrying value after this reclassification of $65.8 million at January 1, 2002. In the first quarter of 2002, the Company performed the transitional impairment review required by FAS 142 and determined that no adjustment for impairment loss was required as a result of adopting the standard.

For its existing goodwill and the reclassified intangible assets, the Company will no longer record amortization, as would have been required prior to the adoption of FAS 142. Had FAS 142 not been adopted, excluding impact of businesses acquired during 2002, the Company would have recorded an additional amortization expense of $12.7 million during the first nine months of 2002. The following table presents the impact of FAS 142 in net income and net earnings per share had the standard been in effect for the nine months ended September 29, 2001 (in millions of U.S. dollars, except per share data):

	Nine Months Ended	
	September 28, 2002 (unaudited)	**September 29, 2001 (unaudited)**
Net income as reported	$ 268.8	$ 212.1
Adjustments:		
Amortization of goodwill		20.5
Amortization of acquired workforce previously classified as intangible assets		1.5
Income tax effect		(0.7)
Net income as adjusted	268.8	233.4
Diluted EPS as reported	0.30	0.23
Diluted EPS as adjusted	$ 0.30	$ 0.26

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), which is effective for fiscal years beginning after December 15, 2001.

Long-Lived Assets to be held and used. FAS 144 retains the requirements of Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* (FAS 121) to (i) recognize an impairment loss only if the carrying amount of a long-lived assets is not recoverable from its undiscounted cash flows and (ii) measure an impairment loss as the difference between the carrying amount and fair value of the asset. To resolve implementation issues, FAS 144 removes goodwill from its scope and therefore, eliminates the requirement of FAS 121 to allocate goodwill to long-lived assets to be tested for impairment.

Long-Lived Assets to be disposed of other than by sale. FAS 144 requires that long-lived assets to be abandoned, exchanged or distributed in a spin-off be considered held and used until they are disposed of. FAS 144 requires that the depreciable life of a long-lived asset to be abandoned be revised and also requires that an impairment loss be recognized at the date a long-lived asset is exchanged or distributed in a spin-off if the carrying amount of the assets exceeds its fair value.

Long-Lived assets to be disposed of by sale. The accounting model retains the requirements of FAS 121 to measure long-lived asset classified as held for sale at the lower of its carrying amount or fair value less cost to sell and to cease depreciation (amortization). Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

The Company adopted FAS 144 during the first quarter of 2002 and determined that no adjustment was required as a result of adopting the standard.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (FAS 146), which is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. This statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) (Issue 94-3). FAS 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by FAS No. 144. Those costs include, but are not limited to, the following:

One-time termination benefits provided to current employees,

Costs to terminate a contract that is not a capital lease, and

Costs to consolidate facilities or relocate employees.

The principal difference between FAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or a disposal activity. FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, a liability being defined as probable future sacrifice arising from present obligations. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity s commitment to an exit plan. Under FAS 146, an entity s commitment to a plan, by itself, does not create a permanent obligation to others that meets the definition of a liability.

The Company early adopted FAS 146 during the third quarter of 2002, entering a provision of $0.9 million for severance costs associated with termination of activities in the United States. Had this statement not been adopted during the third quarter of 2002, as previously required by Issue 94-3 the Company would have recorded additional $0.7 million expenses relating to severance benefits to be paid to employees whose transition period exceeds 60 days. These additional expenses will be booked over the whole transition period.

Impairment, Restructuring and Other Related Closure Costs

In the second quarter of 2001, the Company recorded an impairment charge of $296.3 million. This charge included impairment losses of (i) $176.7 million associated with tangible assets at the Company s fabrication sites; (ii) $97.3 million related to purchased technologies and goodwill on previous acquisitions; and (iii) $22.3 million for financial assets with an other than temporary decline in value. This impairment charge resulted from a significant deterioration in the business climate in the semiconductor industry. Due to these market changes, the Company revised its production forecasts and foresaw an underutilization of the capacities of certain 150mm fabrication facilities. The fair value for tangible and intangible assets was determined using the discounted expected future cash flows model.

Quoted market values were used in determining the fair value of financial assets. Additionally, in the second quarter of 2001, the Company recorded restructuring charges of $15.0 million relating to the closure of its facility in Ottawa, Canada. In the third quarter of 2001, the Company recorded an impairment charge of $23.3 million relating to the building and facilities of its Rancho Bernardo, California, 150mm fabrication plant; this impairment charge was based on quoted market value and resulted from management s decision to close the plant. In the fourth quarter of 2001, the Company recorded expenses of $10.9 million related to severance costs and retention bonuses for plant employees during the closure of the facilities in Ottawa, Canada, and Rancho Bernardo, California.

The Company recorded expenses of $29.6 million in the first nine months of 2002 including (i) $22.0 million relating to decommissioning costs, retention bonuses and contract obligations incurred during the closure of the facilities in Ottawa, Canada, and Rancho Bernardo, California; (ii) $6.9 million impairment charges for long term investments; and (iii) $0.7 million for restructuring of the graphics division of the Consumer & Microcontrollers product group. In the third quarter of 2002, the Company recorded expenses of $11.6 including (i) $4.7 million relating to decommissioning costs, retention bonuses and contract obligations incurred during the closure of the facilities in Ottawa, Canada, and Rancho Bernardo, California; and (ii) impairment charges for long term investments in SuperH Inc. of $6.1 million and in Data Play of $0.8 million. After assessing the fair value of its investment in SuperH, the Company wrote off the remaining investment book value of $3.5 million. In addition, the Company expensed a $2.6 million capital increase that it will be contractually obliged to contribute to SuperH, Inc. in the fourth quarter of 2002.

Equity in Loss of Joint Venture

During the third quarter of 2001, the Company and Hitachi Ltd. formed a joint venture, SuperH, Inc., to develop and license RISC microprocessors. The Company is accounting for its 44% share of SuperH, Inc. under the equity method. In the balance sheet, it is included in investments and other non-current assets. At December 31, 2001, the Company s investment totaled $10.1 million. During the second quarter of 2002 the Company contributed $4.4 million in cash to a capital increase of SuperH; its 44% share of SuperH, Inc. remained unchanged. The Company recorded a charge of $11.0 million in the first nine months of 2002.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of the following:

In millions of U.S. dollars	As at September 28, 2002	As at December 31, 2001
	(unaudited)	(audited)
Goodwill	$ 170.8	$ 63.0
Other intangible assets	313.0	149.6
Total	$ 483.8	$ 212.6

As required by FAS 142 adopted by the Company during the first quarter of 2002, goodwill is no longer amortized. Other intangible assets include the cost of technologies and licenses purchased from third parties, amortized over a period ranging from three to seven years.

The main increase during 2002 is related to the booking of $104.0 million in goodwill and of $168.2 million in intangible assets whose average estimated life is five years, both associated with the purchase of Alcatel Microelectronics.

Inventories

Inventories consist of the following:

In millions of U.S. dollars	As at September 28, 2002		As at December 31, 2001	
	(unaudited)		(audited)	
Raw materials	$	58.4	$	52.5
Work-in-process		635.6		534.0
Finished products		193.3		156.0
	$	887.3	$	742.5

The main increase in inventory at September 28, 2002, when compared to December 31, 2001 was recorded in work-in-process, which was due to the increase in the manufacturing activity of fabrication plants.

Cash Equivalents and Marketable Securities

All highly liquid investments purchased with an original maturity of ninety days or less are considered to be cash equivalents.

Management determines the appropriate classification of debt and equity securities at the time of purchase and reassesses the classification at each reporting date. Certain marketable securities, which do not have a readily determinable fair value, are carried at cost. Those marketable securities classified as available-for-sale are reported at fair value with net unrealized gains or losses reported as a separate component of comprehensive income in the statement of shareholders equity. Other than temporary losses are recorded in net income based on the Company s assessment of any significant, sustained reductions in the investment s market value and of the market indicators affecting the securities. Gains and losses on securities sold are determined based on the specific identification method and are recorded as other income or expense.

At September 28, 2002, $1.2 billion of Credit Linked Notes/Deposits were recorded as marketable securities. These Credit Linked Notes/Deposits are bank deposits having as underlying assets bonds issued by different banks with a minimum rating of A. Interest on these deposits is paid quarterly and the interest rate is fixed every three months based on the LIBOR rate of the U.S. dollar plus a spread. The final maturity of these deposits is December 30, 2002, date on which the principal will be repaid to the Company. At any time during the period, the Company can ask for the early repayment of these deposits.

Net Interest Loss

	Nine Months Ended	
	September 28, 2002	September 29, 2001
In millions of U.S dollars	(unaudited)	(unaudited)
Income	$ 36.1	$ 83.5
Expense	(87.6)	(84.8)
Total	$ (51.5)	$ (1.3)

Long-term Debt

Long-term debt consists of the following:

In millions of U.S. dollars	As at September 28, 2002 (unaudited)	As at December 31, 2001 (audited)
STMicroelectronics SA (France)		
• 4.90% bank loan due 2002	$	$ 6.7
• 4.88% bank loan due 2002		6.7
• 3.65% bank loan due 2006	149.4	134.4
• 2.72% other bank loans	3.0	6.6
• 4.67% capital lease[1]	27.3	
STMicroelectronics s.r.l. (Italy)		
• 5.68% bank loan due 2002	18.1	32.1
• 5.35% bank loan due 2006	21.9	21.9
• 1.40% other bank loans	58.4	50.4
STMicroelectronics N.V. (Netherlands)		
• 2.44% Liquid Yield Option Notes (LYONs) due 2009	775.4	761.5
• 3.75% Convertible Bonds due 2010	1,586.6	1,543.0
STMicroelectronics Pte (Singapore)		
• 4.00% Bank loan due 2007	169.1	162.2
• 3.50% other bank loans	0.5	0.7
STMicroelectronics (others)		
• 4.55% other bank loans	113.0	141.8
Total long-term debt	2,922.7	2,868.0
Total long-term debt, less current portion	$ 2,797.3	$ 2,771.5

[1] In the third quarter of 2002 the Company entered into a capital lease for the building of the Crolles 2 site on which the Company has an option to buy.

Computation of Earnings Per Share

Basic net earnings per share (EPS) is computed based on net income available to common shareholders using the weighted-average number of common shares outstanding during the reported period; the number of outstanding shares does not include treasury shares. Diluted EPS is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period, such as stock issuable pursuant to the exercise of stock options outstanding and the conversion of convertible debt.

	Three Months Ended		Nine Months Ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Basic EPS:				
Net income (*in millions of U.S. dollars*)	131.2	35.8	268.8	212.1
Weighted average shares outstanding (*in millions*)	886.4	898.1	887.9	894.2
EPS (basic) (*in U.S. dollars*)	**0.15**	**0.04**	**0.30**	**0.24**
Diluted EPS:				
Net income (*in millions of U.S. dollars*)	131.2	35.8	268.8	212.1
Interest expense on convertible debt, net of tax[1] (*in millions of U.S. dollars*)				
Net income, adjusted (*in millions of U.S. dollars*)	131.2	35.8	268.8	212.1
Weighted average shares outstanding (*in millions*)	886.4	898.1	887.9	894.2
Dilutive effect of stock options (*in millions*)	3.9	7.0	6.0	9.1
Dilutive effect of convertible debt (*in millions*)				
Number of shares used in calculating EPS (*in millions*)	890.3	905.1	893.9	903.3
EPS (diluted) (*in U.S. dollars*)	**0.15**	**0.04**	**0.30**	**0.23**

[1] Due to the level of net income per share, there was no dilutive effect of convertible debt at September 28, 2002.

As of September 28, 2002, basic shares outstanding were 886.4 million.

As of September 28, 2002, there were outstanding stock options for equivalent 47.4 million shares, and 44.1 million shares equivalent for convertible debt.

Treasury Stock

As of December 31, 2001, 9,400,000 of the Company s common shares had been repurchased for a total amount of $233.3 million and were reflected at cost as a reduction of shareholders equity. The repurchased shares were designated to fund the Company s most recent employee stock option plan.

During the first quarter of 2002, the Company did not repurchase any of its common shares.

In May 2002, the Company repurchased an additional four million common shares totaling $115.0 million, in order to fund Company s most recent employee stock option plan. As of September 28, 2002, the Company had repurchased a total of 13.4 million common shares, for a total amount of $348.3 million.

As of September 28, 2002, none of the common shares repurchased in 2001 and 2002 had been transferred to employees under the employee stock option plan.

Dividend

As approved by the annual general meeting of shareholders on March 27, 2002, the Company paid a cash dividend of $0.04 per share on April 22, 2002 for a total amount of $35.6 million.

Legal proceedings

The Company is subject to legal proceedings, claims, and litigations arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve this these matters will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Purchase commitments

As of September 28, 2002, the Company had commitments of:

$411 million for equipment purchases, of which $244 million for 2002 and $167 million for 2003;

$167 million for foundry wafers purchases in 2002, 2003 and 2004; and

$149 million for software and technologies licenses for 2002 to 2005.

Additional contingent liabilities totaling $59 million are outstanding for either capital increases or purchase of shares under certain conditions or contribution to expenses, pursuant to the agreements related to the cooperation with Philips Semiconductors International BV and Motorola, Inc. at the Crolles 2 site, the joint ventures with SuperH and Dai Nippon Photomask Europe GmbH and the purchase option for Tioga Technologies Ltd.

Alcatel Microelectronics acquisition pro forma information

Alcatel Microelectronics was acquired on June 26, 2002. The pro forma information below presents the acquisition of Alcatel Microelectronics as of the beginning of the year 2002 and for the comparable prior year period in 2001. Information related to the mixed-signal business and fabrication facilities sold to AMI Semiconductors, Inc. has been excluded. The restructuring costs incurred in 2001 by Alcatel Microelectronics have been excluded and the impact of charges for in-process research and development has been omitted.

Such information is presented by management based on its best knowledge of the acquired company. This is presented for informational purposes only and is not necessarily indicative of the results of future operations or results that would have been achieved had the acquisitions taken place at the beginning of 2001.

Pro forma statement of income (unaudited)

	Three Months ended		Nine Months ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
In millions of U.S.$ except per share amounts				
Net revenues	1,645.2	1,428.8	4,571.0	5,095.7
Gross profit	609.1	474.8	1,649.5	1,919.6
Operating expenses	(424.3)	(431.3)	(1,268.2)	(1,646.4)
Operating profit	184.8	43.5	381.3	273.2
Net income	131.2	31.0	255.4	216.0
Earnings per share(basic)	0.15	0.03	0.29	0.24
Earnings per share(diluted)	0.15			